

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF
PROCUREMENT ACTIVITIES AT
THE WASHINGTON CONVENTION
CENTER AUTHORITY**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



June 19, 2002

Lewis Dawley
General Manager
Washington Convention Center
900 9th Street, N.W.
Washington, D.C. 20001

Dear Mr. Dawley:

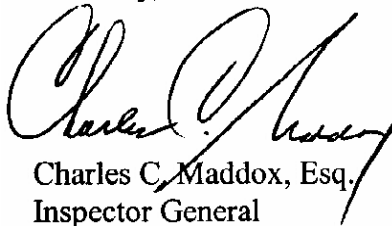
Enclosed is our final report summarizing the results of the Office of the Inspector (OIG) Audit of the Washington Convention Center Authority (WCCA) Procurement Activities (OIG No. 01-1-20ER). We conducted the audit as part of our strategy to address procurement and contract administration on a continuous basis.

As a result of our audit, we directed five recommendations to WCCA for necessary action to correct the described deficiencies. We want to acknowledge that WCCA has reacted positively to our identification of issues and has taken action to address our recommendations.

The WCCA comments to our draft report are incorporated where appropriate. The full text of WCCA's response is included as Exhibit A.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please call me or William J. DiVello, Assistant Inspector General for Audits, at the number below.

Sincerely,


Charles C. Maddox, Esq.
Inspector General

CCM/ws

Enclosure

cc: See Distribution List

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**AUDIT OF PROCUREMENT
ACTIVITIES AT THE WASHINGTON
CONVENTION CENTER AUTHORITY**

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EXECUTIVE DIGEST

OVERVIEW

This report summarizes the results of the audit by the District of Columbia Office of the Inspector General (OIG) of the procurement activities carried out by the Washington Convention Center Authority (WCCA). This audit is part of our strategy to cover procurement and contract administration on a continuous basis.

OBJECTIVES

Our audit objectives were to review WCCA procurement activities to determine whether: (1) procurement activities were executed by WCCA in accordance with the requirements of applicable laws, regulations, policies, procedures and rules; (2) goods and services were delivered in accordance with contract terms; (3) contracts were properly monitored and administered; (4) adequate contract training opportunities were available; and (5) procurement operations were carried out efficiently and effectively.

AUDIT RESULTS

WCCA was generally in compliance with procurement regulations as provided by the applicable District of Columbia Municipal Regulations and WCCA regulations. Also, WCCA had an adequate training program in place for the Contract and Procurement Service Department. However, WCCA did not always properly use the purchase card method of procurement or justify the use of the sole source method of procurement. There were 15 occasions of alleged fraudulent use of procurement cards that resulted in WCCA terminating 2 employees; however, WCCA did not report the instances of criminal activity to the Inspector General as required by the District Personnel Manual (DPM) § 1803.8.

We reviewed the effectiveness and adequacy of WCCA's procurement training program. All managers and contract specialists are required to be certified through the National Institute of Government Purchasing. Certification should be completed within the first year of employment. The certifications offered are Certified Professional Buyer and Certified Professional Purchasing Buyer Officer. The Contracts and Procurement Services Department is a strong advocate of training. The goal for this Department is to have the entire professional staff certified through the National Institute of Government Purchasing.

CORRECTIVE ACTIONS

We addressed five recommendations to the WCCA General Manager that we believe are necessary to address the concerns described above. The recommendations focus on using purchase cards properly, justifying sole-source procurements, and reporting wrongdoing.

On May 30, 2002, WCCA provided a written response to the recommendations in the draft report. We consider WCCA's comments and actions to be responsive to the audit recommendations. The full text of WCCA's response is included as Exhibit A.

INTRODUCTION

BACKGROUND

District Procurement Regulations

The Procurement Practices Act of 1985, D.C. Law 6-85 (codified as amended at D.C. Code §§ 2-301.01 - 2-311.02 (2001)), governs the procurement and contracting activities carried out by the District departments and agencies subordinate to the Mayor, and independent agencies which formally agree to be bound by the Act or by final rules and procedures adopted pursuant to the Act. Regulations applicable to WCCA, including procurement regulations, are contained in Title 19 of the District of Columbia Municipal Regulations (DCMR).

The Washington Convention Center Authority

The WCCA is an independent agency of the District of Columbia government. The mission of the WCCA is to expand the tax base of the District of Columbia by promoting and hosting large national and international conventions and trade shows that bring hundreds of thousands of out-of-town delegates and exhibitors to the District. The WCCA provides space for local and public events, fosters redevelopment of downtown Washington, D.C., and provides expanded employment and business opportunities for residents of the District of Columbia.

A nine-member Board of Directors (the Board) governs WCCA. Two members serve as ex-official voting members of the Board. One of the ex-official members must be the Chief Financial Officer of the District of Columbia and the Mayor designates the other. The remaining seven public members are appointed by the Mayor with the consent of the Council of the District of Columbia (Council) and represent certain sectors of the community. The terms of the public members are 4 years. No board member is permitted to serve more than 2 consecutive 4-year terms. The Mayor appoints one public member as chairperson with the advice and consent of the Council.

The Washington Convention Center opened in 1983 and hosts over 100 events yearly at its downtown site. Over 160 employees work full or part-time in the management of convention activities. The WCCA follows the procurement and contracting provisions set forth in Title 19 of the DCMR, Chapter 3 and other provisions approved by the Board.

The operating budget was \$52.7 million for fiscal year 2001 and \$57.3 million for fiscal year 2002.

INTRODUCTION

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether: (1) procurement activities were executed by WCCA in accordance with the requirements of applicable laws, regulations, policies, procedures, and rules; (2) goods and services were delivered in accordance with contract terms; (3) contracts were properly monitored and administered; (4) adequate contract training opportunities were available; and (5) procurement operations were carried out efficiently and effectively.

We accomplished our audit objectives through: (1) interviews with WCCA management, administration and staff to gain a general understanding and overview of the procurement function and operations; (2) review of procurement processes and systems; (3) sampling and testing of procurement actions; and (4) review of contract monitoring efforts. We conducted our audit in accordance with generally accepted government auditing standards.

The WCCA Contracts and Procurement Services Department initiated 475 purchase orders and contracts, totaling approximately \$30 million, during the 12-month period ending March 31, 2001. Of the 475 procurement actions, we reviewed 108, as follows:

Contract Types	Procurement Universe	OIG Sample
Request for Quotations	77	15
Request for Proposals	72	10
Invitations for Bids	1	1
Emergencies	3	3
Sole Source	20	20
Micro Purchases & Purchase Card Actions	71 125	10 34
Blanket Purchase Agreements	53	10
Inter-Agency Agreements	8	0
Memorandum of Understanding	19	0
GSA Schedule	20	5
Use of Other District Contracts	2	0
Letter of Agreement	4	0
Total	475	108

INTRODUCTION

OTHER MATTERS OF INTEREST

While conducting the audit, we observed that the Contracts and Procurement Services Department of WCCA organizationally reported to the Financial Management Division, which is headed by WCCA's Chief Financial Officer. This reporting relationship appeared to be inappropriate for reasons set forth below. In addition, the position description for the manager of contracts stated that the manager of contracts performs work under the direction of the Chief Financial Officer. The draft "Financial Operations Policy and Procedures Manual" of the Office of the Chief Financial Officer of the District of Columbia discusses internal controls and organizational structure. The manual states that the appropriateness of reporting relationships and channels should be considered in the organizational design of an agency when evaluating internal control deficiencies.

Procurement is not a financial management function such as the controllership and financial planning, which also fall under the Financial Management Division. An operating function such as procurement should be segregated from accounting. Good management controls require that accounting and procurement departments be relatively autonomous with each under its own administrative head. This separation of functions minimizes the opportunity for any one individual to have complete control or influence over a significant portion of a transaction, such as awarding a contract, certifying the accounting codes charged, and approving payment. The organizational relationship between procurement and accounting at WCCA may have presented an opportunity for excess control or influence over a procurement transaction.

WCCA representatives informed the OIG before the issuance of this report that WCCA was realigning the organizational structure to improve the control environment and reporting relationships at WCCA.

FINDINGS AND RECOMMENDATIONS

FINDING 1: USE OF PURCHASE CARDS

SYNOPSIS

We were informed that there were 15 occasions of alleged fraudulent use of purchase cards. As a result, personal goods/services, the procurement of which is strictly forbidden by WCCA regulations, were purchased with wrongfully expended WCCA funds. Also, WCCA personnel did not always use the purchase card method for allowable purchases in accordance with WCCA regulations. As a result, goods were obtained without competition and controls were circumvented.

DISCUSSION

The Purchasing Card Program was implemented to provide WCCA departments with a more efficient system for making purchases costing \$2,500 or less. Purchasing cards are similar to personal credit cards and allow the user to charge for work-related goods and services with the charges billed to WCCA. WCCA obtained 30 purchase cards and distributed 26 for use by WCCA departments. The value of purchase card purchases for the audit period was \$239,449.

Purchase card regulations forbid the use of the purchase cards for goods/services for personal use, capital equipment and improvements, computer equipment, professional services, travel/training, meals, and entertainment. In addition, cardholders are not allowed to split requirements for goods and services to exceed the \$2,500 threshold for a single purchase. Furthermore, a cardholder is limited to no more than five purchases per day.

WCCA's monitoring procedures detected 15 instances of apparent fraudulent use of the purchase card, and our review found other abuses such as exceeding purchase card authority.

Monitoring Purchase Card Usage. The 15 alleged fraudulent uses of purchase cards involved purchase cards assigned to 3 employees. When we began our examination of the purchase card program, WCCA informed us that there had been some problems with the program. Later, WCCA provided us with written details.

FINDINGS AND RECOMMENDATIONS

The purchase card for 1 employee was used on 3 occasions during the audit period for the purchase of gift certificates totaling \$750, as follows:

Date	Amount	Description
December 11, 2000	\$200	Gift Certificate
December 26, 2000	\$300	Gift Certificate
January 1, 2001	\$250	Gift Certificate

The cardholder stated that his wife, without his knowledge, used his card. WCCA took prompt and decisive action by terminating the employee and withholding the amount of the wrongly expended funds from salary due the employee.

The other 12 instances of alleged fraudulent use of the cards occurred subsequent to the period under audit. One employee fraudulently used his card 10 times within a 2-day period. The employee purchased clothes, computer software, telecommunications equipment, jewelry, and other nonwork-related items, totaling \$5,363, as follows:

Date	Amount	Description
October 10, 2001	\$228.22	Groceries
October 11, 2001	\$444.08	Computer Software
October 11, 2001	\$506.27	Telecommunications
October 11, 2001	\$104.49	Shoes
October 11, 2001	\$133.75	Shoes
October 11, 2001	\$71.06	Jewelry
October 11, 2001	\$574.21	Dep't Store Purchases
October 11, 2001	\$2,999.00	Direct Marketing Items
October 11, 2001	\$62.69	Toys
October 11, 2001	\$239.00	Jewelry

Two controls were circumvented during this employee's spending spree. One purchase, from a direct marketer, totaled \$2,999 and should have been flagged or prevented because it exceeded the single purchase limit of \$2,500. Nine of these ten transactions occurred on the same day and, therefore, exceeded the daily limit of five transactions per purchase card.

WCCA also took decisive action to terminate the employee involved in these 10 instances of alleged fraud. In addition, \$1,175 in salary due the employee was withheld. The bank's liability waiver program will provide a credit to WCCA's account for the fraudulent charges.

The last instance of alleged fraud involved an employee who did not know his card was being used. The bank notified the employee that his card was being used fraudulently. These alleged fraudulent transactions were done via telephone.

FINDINGS AND RECOMMENDATIONS

Date	Amount	Description
October 16, 2001	\$457.60	Clothing
October 16, 2001	\$445.65	Clothing

The employee signed an affidavit stating that he did not know the person who was using his card. No disciplinary action was taken against the employee.

While WCCA took decisive action, it did not notify any authority that could have taken action to prosecute individuals involved in the alleged criminal activity until we inquired about purchase card actions as many as 9 months later. Unlike agencies under the authority of the Mayor, the WCCA is not required to comply with the District Personnel Manual (DPM) § 1803.8, which provides:

An employee shall report directly and without undue delay to his or her agency head and to the Office of the Inspector General of the District of Columbia any information concerning conduct which he or she knows, or should reasonably know, involves corrupt or other criminal activity, or conflict of interest:

- (a) On the part of another District employee, which concerns that person's employment or office; or
- (b) On the part of a person dealing with the District government, which concerns that person's dealings with the District government.

In addition, DPM § 1803.9 states:

An agency head who has information concerning conduct as described in § 1803.8 shall immediately report such information to the Office of the Inspector General of the District of Columbia.

We were unable to locate any legislation that requires agencies independent of the Mayor to report criminal wrongdoing to anyone. WCCA needs to incorporate the provisions of the DPM into its own policies and procedures to ensure that the Inspector General is timely notified of wrongdoing.

Exceeding Purchase Card Authority. WCCA employees exceeded purchase authority by splitting requirements in order to stay within the \$2500 threshold or by simply making a purchase over the limit.

The 125 purchase card actions in WCCA's procurement universe for the audit period represented monthly activity statements for WCCA departments using purchase cards. Each monthly activity statement listed the individual charges made by each department. The

FINDINGS AND RECOMMENDATIONS

monthly activity statements totaled approximately \$239,000. We randomly selected 34 individual purchase card transactions. Of the 34 transactions in our sample, 3 represented improper, but not fraudulent, uses of the cards as follows:

Department	Item	Amount	Comments
Engineering	Snorkel Lift	\$2,775	Cost over/split
Information Technology	Bar Code Printer	\$3,370	Over limit

The lift equipment shown above was acquired by splitting the requirement into 2 purchase card transactions (\$1,586 and \$1,189) to stay below the \$2500 threshold. Also, because the lift equipment exceeded \$1,000, WCCA considered the equipment to be capital equipment and, hence, not an allowed purchase with the purchase card.

The bar code printer purchase exceeded the purchase card limit of \$2,500. The bank that manages the Purchase Card Program should not have executed this transaction given that it was over the \$2,500 limit. WCCA could not explain how it was possible for this transaction to circumvent the dollar-amount control limit.

The Contracts and Procurement Service Department conducts reviews of purchase card activity on a post-transaction basis using the bank statement, a monthly activity report. However, given the fraudulent use of the card that has taken place, WCCA is reducing the number of cards issued and reviewing the program. WCCA needs to also determine why the dollar purchase limit and the limit on the number of daily transactions are being circumvented without notification from the bank.

RECOMMENDATION 1

We recommended that the Washington Convention Center Authority General Manager revise its personnel and procurement policies and procedures so that the General Manager and other WCCA employees are required to comply with DPM §§1803.8 and 1803.9, which, in general, require the agency head and each employee to report to the Inspector General instances of criminal wrongdoing or conflicts of interest.

RECOMMENDATION 2

We recommended that the Washington Convention Center Authority General Manager inform purchase card users of their responsibilities as cardholders.

RECOMMENDATION 3

We recommended that the Washington Convention Center Authority General Manager coordinate with bank officials to determine why transaction controls were not effective and implement effective transaction authorization controls that preclude acceptance by the bank

FINDINGS AND RECOMMENDATIONS

of purchases in excess of 5 purchases per card, per day and a single purchase in excess of \$2500.

RECOMMENDATION 4

We recommended that the Washington Convention Center Authority General Manager review purchase card actions for all improper uses each month.

WCCA RESPONSE (RECOMMENDATIONS 1 – 4)

The WCCA concurred with the recommendations and stated that it will take action to correct the noted deficiencies. The full text of WCCA's response is at Exhibit A.

OIG COMMENT (RECOMMENDATIONS 1 – 4)

The actions planned by WCCA should correct the conditions noted.

FINDINGS AND RECOMMENDATIONS

FINDING 2: SOLE SOURCE PROCUREMENTS
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SYNOPSIS

WCCA did not always comply with sole-source requirements of the DCMR and WCCA's procurement policies, procedures, and regulations. We found 3 sole-source procurement actions totaling \$175,187 for which there was no sole-source justification. As a result, WCCA may not have received the most economical prices in procuring these services and goods. We attribute this condition to a lack of adequate analysis and a failure of the contracting officer to assure himself that all required documents were in place before executing the contract.

DISCUSSION

Title 19 DCMR, Chapter 3 regulates the use of sole-source procurement procedures for WCCA. Title 19 DCMR § 308.2 states that the Chief Contracting Officer (CCO) may procure goods or services on a sole source basis if the CCO "makes a written determination that the minimum needs of the Authority [WCCA] can only be met by such goods, services or construction and that the proposed sole source is the only source capable of providing them." *Id.* Title 19 DCMR § 308.3 provides that the CCO's written determination shall include the following:

- a description of the WCCA's requirement, including the estimated cost;
- an explanation of the unique nature of the procurement;
- an explanation of the contractor's unique qualification;
- a determination that the costs to WCCA will be fair and reasonable; and
- a description of the market survey conducted and list of potential sources contacted, or an explanation for why such a description or list was not possible.

FINDINGS AND RECOMMENDATIONS

The WCCA Procurement Policies & Procedures manual states:

A standard sole source justification form shall be completed by the user-department and signed by the Division Director and Department Manager. The sole source justification shall specify the nature of the sole source based on the multiple selections as provided on the form. Upon completion of the form and submittal to the Contracts and Procurement Service Department, the Manager of Contracts and Procurement Service Department shall conduct negotiations with the vendor in addition to performing a market survey to ensure that the price being paid is both fair and reasonable and to verify the sole source nature of the goods or services. A contract shall be written based upon the negotiated terms and conditions.

We reviewed all 20 sole-source purchases. Of the 20, 3 did not have the written determinations, which would justify sole-source procurement as follows.

Document No.	Goods/Services	Amount	Comments
40226	Tourist Services	\$150,000	No Justification
40141	Bondholder	\$7,093	No Justification
40111	Badging/Access	\$18,094	No Justification

Purchase Order No. 40226 was used to procure tourist services to promote District neighborhoods and to develop a series of tours to help establish D.C. neighborhoods. However, tourism is a major industry in the Washington metropolitan area and there are a number of providers of such services. Hence, such services are not unique. WCCA did not prepare a sole-source justification although such written justification is required by 19 DCMR § 308.2.

WCCA personnel informed us that the sole-source method of procurement was used as a result of a legal agreement. The legal agreement was between WCCA and a not-for-profit corporation that helps promote tourism in the District, including obtaining marketing services for WCCA. The agreement allowed the not-for-profit corporation to submit a proposal to WCCA to provide additional marketing services based on available funds. However, the agreement did not state that only one firm could provide the additional marketing services. And, again, no written determination was in the files to that effect.

Purchase Order No. 40141 was issued to obtain the services of a bondholder. There was no written determination in the files that justified why this was a unique service. WCCA informed us that there was an immediate need for such services by the general manager. Therefore, the procurement action was awarded sole source.

FINDINGS AND RECOMMENDATIONS

Purchase Order No. 40111 was issued to obtain badging/access services for an existing security system. The services provided were to enhance the existing system. Even though the sole source method of procurement appeared justified, WCCA did not prepare a determination in writing in accordance with 19 DCMR §§ 308.2 and 308.3. No explanation was provided for not preparing the determination.

RECOMMENDATION 5

We recommended that the Washington Convention Center Authority General Manager obtain adequate competition for all contracts unless justified by analysis and written determination as required by 19 DCMR §§ 308.2 and 308.3.

WCCA RESPONSE

WCCA concurred with this recommendation. WCCA stated in its May 30, 2002, response that it would conduct additional training for all procurement staff within 30 days, in order to ensure that all purchases designated as “sole source procurements” include the documentation required by the WCCA procurement regulations. The full text of WCCA’s response is at Exhibit A.

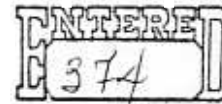
OIG COMMENT

The action planned by WCCA should correct the condition noted.

02 J 5

May 30, 2002

Charles C. Maddox, Esq.
Inspector General
District of Columbia Office of the Inspector General
717 14th St. N.W.
Washington, D.C. 20005



Dear Mr. Maddox:

Thank you for the opportunity to comment on the draft report of your audit of procurement activities at the Washington Convention Center Authority, dated May 2, 2002.

Use of Purchasing Cards

The Authority informed the Office of the Inspector General of the instances of fraud in purchasing card use cited in the draft report to by letter dated November 6, 2001. At that time we reported that the responsible employees had been discharged and the number of cards reduced.

The draft report points out that the Authority is not presently required by law or regulation to so inform the Inspector General of corrupt or criminal activity and recommends [1] that the Authority amend its policies and procedures to require such action by officers and employees of the Authority. I have directed the Director of Administration to amend the Authority's Personnel policy and Procedures Manual to comply with this recommendation within thirty days.

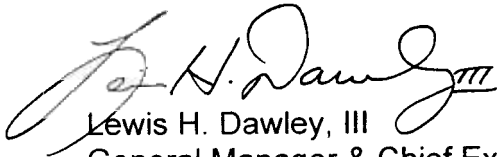
The draft report also recommends that the Authority: [2] inform purchasing card holders of their responsibilities; [3] implement controls with our bank to preclude acceptance of improper purchases; and [4] review purchasing card transactions for improper uses each month. I have directed the Manager of Contracts and Procurement to conduct refresher training for all cardholders within thirty days, and to conduct the recommended monthly review, effective immediately. The Department of Contracts and Procurement has already agreed with MBNA Bank on steps to implement recommendation [3].

Sole Source Procurement

The draft report reviews twenty sole source procurement and finds that three (Purchase Orders 40111, 40141 and 40226 are not supported by adequate documentation, as required by the Authority's procurement regulations. The draft report recommends that the Chief Contracting Officer use competition for all contracts unless use of a sole source is justified by adequate documentation.

I have directed the General Counsel and the Manager of Contracts and Procurement to conduct additional training for all procurement staff within thirty days, in order to ensure that all purchases designated as "sole source procurements" include the documentation required by the Authority's procurement regulations.

Sincerely,

A handwritten signature in cursive script, appearing to read "L. H. Dawley, III".

Lewis H. Dawley, III
General Manager & Chief Executive Officer